

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes
Bill Leonard, Member
State Board of Equalization*

July 24, 2006

QUOTE OF THE WEEK

*"We must not believe the many, who say that only free people ought to be educated, but we should rather believe the philosophers who say that only the educated are free." ---
Epictetus (ca 55-135 A.D.) Greek philosopher Source: Discourses*

AROUND THE STATE

*****Want More Record Revenue? Keep Cutting Taxes*****

From the Bill Leonard Blog 7/19/2006

Tom Nugent has a terrific analysis of the federal revenue picture over at National Review Online:

<http://article.nationalreview.com/print/?q=NTlhN2ZiOGQwYWJjMTBiNzUyM2IyNWQyMTcwNTQ0MGU=>

Nugent sees the record levels of revenue as a sign that we are still over taxed. But not for exactly the reason you might think. Nugent argues that further tax cuts will generate even more revenue, and I think history shows him to be correct.

To set up the argument, he quotes the latest Wall Street Journal report on federal revenues: "In the first nine months of fiscal 2006, tax revenues have climbed by \$206 billion, or nearly 13%. As the Congressional Budget Office recently noted, 'That increase represents the second-highest rate of growth for that nine-month period in the past 25 years' - exceeded only by the year before. For all of fiscal 2005, revenues rose by \$274 billion, or 15%." Higher receipts from personal income tax are largely responsible, and corporate receipts are nearly triple what they were in 2003.

Nugent is a student of Laffer's much misunderstood theory. Laffer is often associated with lower taxes and nothing else. What Laffer says is very simple: There exists an optimal level of taxation that is neither too low nor too high. In other words, if taxes are too high they are counter-productive in that they punish the economy to an extent that tax revenues are depressed. On the other hand, Laffer says if taxes are too low, they can be raised without hurting the economy and depressing revenues.

When tax cuts yield sky-high revenues as they have since the cuts of 2003, it is a sign tax rates are still prohibitive and need to be lowered still. We will know when the right tax level is reached when continued tax cuts no longer yield revenues higher than expected from a modestly growing economy like ours.

*****Open Government Forum for You*****

Californians are fortunate to have several organizations committed to the cause of open government. Californians Aware, the Center for Public Forum Rights, has just started an on-line forum at

<http://www.calaware.net/forum/>

The forum covers access to public meetings, whistleblowers' rights, access to court proceedings, access to public records, students speech and press rights, among other topics. Forum participants can post questions and receive advice from other members and Terry Francke, the foremost authority on California's open government laws. I had the privilege of working closely with Terry when I wrote the law protecting students who exercise their First Amendments rights, and I commend him for his participation in these forums to advise people concerned with open government.

ISSUE FOCUS

*****Culture Fosters Lower Expectations*****

My sister, a public school teacher, responded to my recent article about grade inflation. She notes that the social dynamic that leads to grade inflation also applies in many other situations: "Our cultural standards have dropped in all areas: dress, speech, behavior, respect for laws, responsibility for actions and on and on. This includes things like my own punctuation. Should that have been a semi-colon or is a colon correct? Have you seen the reading level of the London Times? Now compare it to the LA Times. Last time you went to an R movie how many children did you count in the audience? I know you write letters in your chosen profession, but how many people can even write a letter anymore? We only dash off emails, including me. We value our sports stars and entertainers more than we honor our military heroes. We no longer respect our leaders because so many of them show no respect for our laws. Our culture has become superficial. It's not what you know or what you have learned, it's did you get that piece of paper that says you tried. So, let's hear it for the high school exit exam, retention of students who do not meet grade level benchmarks, conviction of those who cannot follow the laws no matter who they are, dress codes everywhere and respect for those who maintain cultural levels no matter who they are."

She also said she was reminded by an entry in the Notable Dates in History section that our family went to Disneyland the first week it was open. She reminded me that I

probably wore a white shirt and tie because that is what I wore all through school, and then said, "By the way, the Happiest Place on Earth is a cultural world unto itself first maintained by Walt himself. They have a dress code strictly enforced for employees and also for park visitors. They also try to keep the language acceptable by warning visitors who are speaking inappropriately. So the little eight year old boys may no longer wear a tie, but they can't dress like a gangster, have to keep their pants up and their shirts on and speak with a clean mouth."

Well said, Sis.

*****Technology Advances*****

Since I keep a blog and send an electronic newsletter, I am intrigued by news about changes in internet usage. I found three interesting notes this last week.

First, one article said that younger people view e-mail as their "snail mail," unlike we more mature folks who know what "snail mail" really is. People under 30 are more likely to use text messaging for instant communication, choosing texting before email. I know that the younger crowd takes to texting much more easily, but I do not believe it will come to replace email. I believe that texting/instant messaging is replacing telephone conversations, while email becomes the format for information we used to see in paper correspondence, newspapers and magazines.

The headline of the second story was "Reports of Death of Dial-Up Internet Greatly Exaggerated." While broadband connections in American homes are growing and 62% of Americans connect to the internet using high-speed connections, a solid 34% of people still use dial-up connection and are satisfied. That is one of the reasons I continue to send this newsletter in plain text format. People with dial-up connections have difficulty loading enhanced text, graphics and pictures, and I want to make it as easy as possible for the most readers to read this.

The third eye-catching piece was about the number of unique internet addresses available. When the internet came into existence some 20 years ago, programmers made room for four billion addresses (16-bit numbers). Those four billion spaces are quickly being gobbled up, so a new internet protocol called IPv6 has been developed that will create 340,282,366,920,938,000,000, 000,000,000,000,000,000 unique web addresses. (That translates to "340 undecillion, 282 decillion, 366 nonillion, 920 octillion, 938 septillion.") Since that number itself is fairly incomprehensible, think of it like this. The current capacity for internet addresses is like the land mass of Australia and the future capacity will be like the area of the Milky Way.

Some other internet stats:

- In 2001 about 12 billion emails were sent every day, worldwide. Now we are seeing about 50 billion emails per day.

- Of those 50 billion emails, about 88% are junk and one percent are infected with a virus.
- The average person receives 32 emails per day, but that number is rising by 84% each year.
- There are currently 440 million electronic mailboxes. Of those, 170 million are corporate and that number is growing by 32 per cent per year.

MISCELLANY

California County History

Plumas County was created in 1854. It was named for the river that runs through it. We know it as the Feather River, but it was originally known in Spanish as El Rio de las Plumas. Thus, the “River of Feathers,” which is a tributary of the Sacramento River. All of the numerous branches of the Feather River have their origins in the county’s mountains.

The California gold rush began in 1848, but the area that became Plumas County boomed in 1850 after word traveled about Thomas Stoddard’s tale. Stoddard was with a party traveling the Lassen Trail out of western Nevada but took a long detour and ended up in the Big Meadows area (now Chester/Lake Almanor). Stoddard and a companion left the main party to hunt but were not able to find the group when it had moved on. They were lost on their own somewhere between Sierra Valley and Downieville. Stoddard said they came upon a lake that had large gold nuggets along its shoreline. They filled their pockets and settled in for the night, only to be awakened by some attacking Native Americans. An injured Stoddard walked alone through the mountains and ended up at a mining camp on the Yuba River, his pockets full of gold, sharing his story of the Gold Lake. Stoddard could never find the lake again, nor could any of the thousands of other miners who went looking for it. However, the miners did find plenty of other gold, and later copper was mined, too. Timber harvesting replaced mining when the Western Pacific Railroad arrived in 1909.

A Good Read

Would-be reformers often suggest that the Board of Equalization should operate more like a formal tax court, rather than an informal tax appeals board where ordinary taxpayers can make their case without lawyers, pleadings and legal briefs. I oppose the idea of tax courts, of course, because they are too expensive and unfriendly to taxpayers. I think the novel “Bleak House” should be assigned reading for anyone seeking to impose more formal, legalistic and judicial processes on the Board of Equalization.

Charles Dickens’ lengthy and complex novel “Bleak House” is based around the arcane world of England’s Chancery Courts of the 1840s, where legal proceedings dragged on for decades. The court’s procedures were so Byzantine and specialized that litigants could not possibly understand them and they were not permitted to represent themselves

in court. Even a litigant's lawyer ("solicitor") had to hire a barrister to advocate his case before the Lord Chancellor. Vast fortunes were consumed in endless proceedings and lives were destroyed in the hopeless pursuit of equity. Unfortunately, if you talk to anyone who has been involved in a civil trial in the last few years, you might get the impression that the more things change, the more they stay the same.

"Bleak House" is often considered the greatest novel by Charles Dickens, with several parallel plots and a host of interesting characters. The descriptions are fascinating, but often a bit verbose. As with Dickens' other novels, you cannot escape the feeling that he was paid by the word. Actually, "Bleak House" was published in serial form, with 19 monthly installments, so in a very real sense, Dickens did get paid by the word. Still, the lively and intricately intertwined stories keep the reader's interest. I would certainly recommend this book — and not just for people advocating formalistic practices for the Board of Equalization.

BOE AND LEGISLATIVE DATES

August 7, 2006 --- Legislature reconvenes from summer recess.

August 16, 2006 --- BOE meets in San Diego.

August 29, 2006 --- BOE meets in Sacramento.

August 31, 2006 --- Final recess of legislature begins upon adjournment.

September 4, 2006 --- Labor Day.

September 12-13, 2006 --- BOE meets in Culver City.

September 26-27, 2006 --- BOE meets in Sacramento.

September 30, 2006 — Last day for Governor to sign or veto bills passed by the Legislature before September 1 and in his possession on or after September 1 (Art. IV, Sec.10(b)(2)).

NOTABLE DATES/ HISTORY

July 24, 1847 --- Brigham Young and his followers arrived in the Great Salt Lake Valley, where they found the settlement that becomes Salt Lake City.

July 24, 1974 --- The U.S. Supreme Court ruled that President Richard Nixon must turn over his tapes of White House conversations regarding the Watergate scandal to Special Prosecutor Leon Jaworski.

July 25, 2001 --- California Republican Gaddi Vasquez was nominated by President George W. Bush as the first Hispanic to be Director of the Peace Corps.

July 26, 1948 --- U.S. President Harry Truman signed executive orders requiring the racial integration of the American armed forces and banning discrimination in federal employment.

July 27, 1953 --- The United Nations, North Korea, and China signed an armistice agreement ending the Korean War and creating a demilitarized buffer zone between North and South Korea. South Korea refuses to sign the accord.

July 28, 1868 --- The 14th Amendment to the U.S. Constitution was ratified, giving full citizenship to African Americans and applying civil rights protections to be honored by states and the federal government.

July 30, 1619 --- The Virginia House of Burgesses, the first representative assembly in the American colonies, opened in Jamestown, Virginia.

July 30, 1935 --- The first Penguin paperback book was published, an early step in the paperback revolution that began after World War II.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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